

**REPORT OF EXAMINATION**  
**OF**  
**GREAT REPUBLIC LIFE INSURANCE CO.**  
**AS OF**  
**DECEMBER 31, 1995**

**BY THE**  
**OFFICE OF INSURANCE COMMISSIONER**  
**STATE OF WASHINGTON**

**GREAT REPUBLIC LIFE INSURANCE CO.**

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify that I have reviewed the attached Report of Examination of the financial condition and affairs of **Great Republic Life Insurance Company** of Seattle, Washington as of December 31, 1995.

JAMES T. ODIORNE, CPA  
Deputy Commissioner, Company Supervision  
Acting Chief Examiner

Date\_\_\_\_\_

# GREAT REPUBLIC LIFE INSURANCE CO.

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Seattle, Washington  
April 9, 1997

Honorable Deborah Senn  
Insurance Commissioner  
State of Washington  
Insurance Building  
P. O. Box 40255  
Olympia, WA 98504

Dear Commissioner:

In accordance with your instructions and in compliance with the statutory requirements of RCW 48.03.010, an examination has been made of the corporate affairs and financial records of:

**GREAT REPUBLIC LIFE INSURANCE COMPANY**  
of  
Seattle, Washington

hereinafter referred to as "GRLIC" or the "Company", at its home office located at 226 Second Avenue West, Seattle, Washington 98119.

This report of examination is respectfully submitted showing the condition of the Company as of December 31, 1995.

**SCOPE OF EXAMINATION**

The examination covered a three-year period from January 1, 1993 to December 31, 1995. The examination was conducted in accordance with the statutory requirements contained in the Washington Insurance Code and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The examination included identification and disposition of material transactions and events occurring subsequent to December 31, 1995 that were noted during the examination.

## INSTRUCTIONS

- (1) The Company's **adjusted operating loss** as of December 31, 1995 is greater than 50% of the Company's remaining surplus as regards policyholders in excess of the minimum required. Pursuant to WAC 284-16-310(6), such a loss is a consideration for the Insurance Commissioner as to a Company being in a hazardous condition. The Company is instructed to increase its paid-in surplus to strengthen its financial position.
- (2) The Actuarial Opinion was rendered in accordance with WAC 284-07-370, which is not based on an asset adequacy analysis. One of the eligibility tests under WAC 284-07-360(3)(a)(iv) is that "the Examiner Team for the NAIC has **not** designated the company as a first priority company in any of the two calendar years preceding the calendar year for which the actuarial opinion is applicable". The Examiner Team of the NAIC has designated this Company as requiring second priority regulatory attention based on declining surplus and losses from operations. The statement of Actuarial Opinion stated in error that the Company did not have a first priority or a second priority for the prior year. The Company is instructed to file its actuarial opinion, as required by WAC 284-07-380, on the basis of an asset adequacy analysis.
- (3) The Company is instructed to comply with RCW 48.07.040, which require an incorporated domestic insurer to hold the annual meeting of its shareholders in the month of January, February, March, or April for the purpose of receiving reports of its affairs and to elect directors. The Bylaws of the corporation provide that the annual meeting of its shareholders be held on the third Friday of April of each year. No meeting of shareholders was held in 1996. The Company is instructed to hold annual Shareholder meetings as required by RCW 48.07.040.
- (4) The Company is instructed to comply with the provisions of its Articles of Incorporation and Bylaws, which provide that the number of directors should be not less than five nor more than nine in number. RCW 48.06.200(6) also requires that the Board consist of a minimum of five members. Currently, the Company has only two board members.
- (5) The Company is instructed to maintain a written record in permanent form showing the authorization by an officer of the Company of the acquisitions and sales of securities as required by RCW 48.13.350.

## **COMMENTS AND RECOMMENDATIONS**

- (1) The Company has no written conflict of interest policy. It does not require signed statements of potential conflict of interest from its officers and directors. It is recommended that the Company implement a procedure for disclosure of conflicts to the Board of Directors annually.
- (2) The Custodial Agreement with BNY Western Trust Company does not include the required provisions for indemnifying the Company for lost securities, and thus, does not conform to the standards set forth by the NAIC. It is recommended that the custodial agreement be updated to include provisions for indemnifying the Company for the loss of securities as required by the NAIC.
- (3) It was noted during our evaluation of the system of internal controls that no clear segregation of accounting and reporting duties existed among the small number of employees. There are only four full-time employees, which makes it difficult to clearly maintain separate duties and responsibilities. It is recommended that supervision be increased to develop a high level of confidence in the integrity of the work performed.
- (4) On November 15, 1995, the Company terminated a policy for non-payment of premium due. The policy has an outstanding policy loan. As of December 31, 1995, the policy is still included in the in-force listings and the policy loan is still outstanding. It is recommended that the Company remove terminated policies from the in-force listings and the outstanding policy loan is written-off against the cash value of the policy at the time the policy is terminated.
- (5) In our review of Cash on Hand and on Deposit, we noted that former employees are included as authorized signers. It is recommended that all of the bank signature cards be updated to reflect the change in bank name and bank account numbers and to remove former employees as authorized signers on the accounts.
- (6) In reviewing the Interest Maintenance Reserve, it was noted that the reserves from the preceding year were not carried forward correctly to the current year. It is recommended that the form for calculating the Interest Maintenance Reserve be prepared in accordance with NAIC guidelines.

## **HISTORY**

The Company was incorporated on July 14, 1965 as a stock life insurance company under the laws of the state of Washington and commenced business on May 4, 1966 using the name of Pacific Reserve Life Insurance Company. On January 1, 1968, the Company's name was changed to Great Republic Life Insurance Company. On March 17, 1978, Empire Insurance Agency, Inc., a Seattle, Washington corporation, acquired control of the Company and on June 30, 1980 owned 100% of the outstanding stock of Great Republic Life Insurance Company.

## **MANAGEMENT AND CONTROL**

### **Shareholders**

Control of the Company is held by Empire Insurance Agency, Inc., which serves as a holding company. The organization is owned and operated by the Pritchett family.

### **Capitalization**

The authorized capital stock of the Company at the time of incorporation was \$600,000, consisting of 60,000 shares of common stock with par value of \$10 a share. In 1975, the Articles of Incorporation were amended to increase the authorized capital stock to \$10,000,000, consisting of 1,000,000 shares at \$10 a share. The Company is required to have capital in excess of \$250,000 pursuant to RCW 48.05.340.

The authorized and outstanding shares, along with capital and surplus account balances during the period under examination are listed below:

	<b><u>12/31/93</u></b>	<b><u>12/31/94</u></b>	<b><u>12/31/95</u></b>
Par Value	\$10	\$10	\$10
Authorized Shares	1,000,000	1,000,000	1,000,000
Outstanding Shares	100,000	100,000	100,000
Capital Stock	\$1,000,000	\$1,000,000	\$1,000,000
Gross Paid-in Surplus	1,816,290	1,816,290	1,816,290
Unassigned Funds (Surplus)	<u>250,784</u>	<u>(492,165)</u>	<u>(1,431,956) *</u>
Total Capital & Surplus	<u>\$3,067,074</u>	<u>\$2,324,125</u>	<u>\$1,384,334</u>

**\* As adjusted by examination.**

**Board of Directors:**

The Articles of Incorporation vest the management and control of the affairs of the Company in the Board of Directors which is to consist of not less than five nor more than nine members. It was noted during the examination that as of December 31, 1995, the Board of Directors had only three members. As of the date of completion of the fieldwork for this examination, the Company had only two members on the Board of Directors.

The following individuals serve the Company as Directors and Officers as of December 31, 1995:

**Directors:****Name and Residence****Business Affiliation**

James W. Pritchett  
Seattle, Washington 98119

Director & President  
Empire Insurance Agency, Inc.

Patricia D. Pritchett  
Seattle, Washington 98119

President, Great Republic Ins. Co.  
Director & Secretary-Treasurer,  
Empire Insurance Agency, Inc.

Phillip H. Pritchett  
Seattle, Washington 98119

Treasurer, Great Republic Insurance  
Company

**Officers:****Name****Position Held**

Patricia D. Pritchett

President

Larry R. Stone

Vice President

William F. Fortune

Secretary

Phillip H. Pritchett

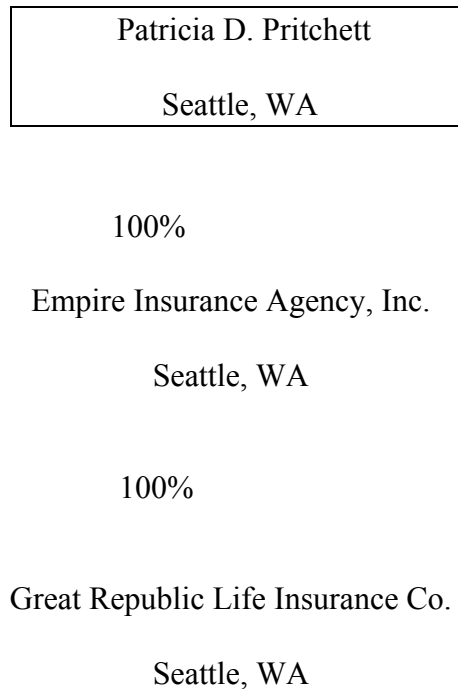
Treasurer

### **Affiliated Companies**

Great Republic Life Insurance Company is a wholly-owned subsidiary of Empire Insurance Agency, Inc., a Washington state corporation. The organization is owned and operated by Patricia D. Pritchett and family.

### **Organizational Chart**

The following organizational chart shows the companies affiliated with the group as of December 31, 1995:



Great Republic Insurance Company of Santa Barbara, California was a wholly owned subsidiary of Great Republic Life Insurance Company until July 1, 1991 when it was placed into conservatorship by the California Department of Insurance. The subsidiary was subsequently placed into liquidation on January 24, 1992 and therefore not included in the above organizational chart.

## **CORPORATE RECORDS**

### **Minutes**

Minutes of the Board of Directors and Shareholders meetings were reviewed for 1993 through 1995. There were no amendments to the Articles of Incorporation or Bylaws of the Company during the three-year period under examination. As of December 31, 1995, there were only three members of the Board. This is not in compliance with the Articles of Incorporation which require at least five members. Also, the annual meetings of the shareholders and Board of Directors were not held in accordance with the Bylaws of the corporation.

### **Conflict of Interest**

In the last examination, it was recommended that the Company establish a formal procedure for disclosure to the Board of Directors any material interest or affiliation on the part of any of the Company's officers, directors, or responsible employees which is or is likely to conflict with the official duties of such person. To this date, the Company has no written conflict of interest policy. Conflict of Interest statements were requested during the examination and the Company provided five statements from the officers and directors, two of which were copies from the last examination dated May 1993. A review of the minutes of the Board of Directors' meetings for the period under examination made no reference to review of the conflict of interest statements by the Board.

### **Contracts**

As of December 31, 1995, the Company was a party to the following contracts:

- (1) A Tax Allocation Agreement with the parent company, Empire Insurance Agency, Inc., and its affiliate, Great Republic Insurance Company of California, dated August 17, 1990.
- (2) A Lease Agreement dated March 16, 1989 for the Company's home office located in a building owned by a member of the Pritchett family, William Pritchett. The Company leases the building, through March 31, 1999, at a monthly rental payment of \$7,000.

## **INTERNAL SECURITY**

### **Fidelity Bonds**

Officers and employees of Great Republic Life Insurance Company are covered under a Financial Institution Bond issued to Empire Insurance Agency, Inc., the Company's ultimate parent. The policy provides a limit of \$1,000,000 with a \$25,000 deductible per claim. The coverage exceeds the minimum amount of fidelity insurance recommended by the NAIC Examiners Handbook.

### **Other Insurance**

The Company is also a named insured on a commercial property, commercial liability, and commercial umbrella liability coverage to provide protection against hazards to which the Company is exposed.

### **Internal Controls**

Internal controls on cash receipts, cash disbursements, and EDP Systems were evaluated during the examination. Controls in place do not appear to be adequate due to the inability of the Company to spread the duties and responsibilities among the limited number of employees. As of the examination date, there are four full-time employees, and four officers.

## **WELFARE & PENSION PLANS**

During the period under examination, the Company dissolved the 401K plan and adopted a new Salary Reduction Simplified Employee Pension Plan (SARSEP Plan). Under this plan, eligible employees are allowed to voluntarily defer a portion, not to exceed 15%, of their compensation. The deferrals are then invested through Dain Bosworth Inc., an IRA Custodian. There are no employer's contributions. Other benefits include life and accidental death insurance and medical insurance at no cost to the employee.

## **TERRITORY AND PLAN OF OPERATIONS**

As of December 31, 1995, the Company is authorized to transact business in the states of Alaska, Arizona, Idaho, Nevada, Oregon, Utah, and Washington. The Company's Certificates of Authority in the states of Alaska, Arizona, and Idaho were suspended effective September 15, 1996, October 21, 1996, and December 31, 1996, respectively due to capital deficiency and continued operating losses. The Certificate of Authority in the state of Idaho was reinstated on March 6, 1997. The Company is in the process of filing to have their Certificate of Authority reinstated in the state of Arizona.

The Company's new business activities are limited to Long Term Care (LTC) and Home Health Care (HHC) products. Significant rate increases have been implemented on these lines of business in 1996 and a 15% increase In-Group Skilled Nursing Care (GSN) was granted in January, 1997. They have approximately 200 independent agents and are currently recruiting new agents. They estimated new sales of these products to be in the range of \$780,000 to \$850,000 in 1997.

## **GROWTH OF THE COMPANY**

The growth of the Company is reflected in the following schedules:

### Schedule 1 (000s) omitted

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>
1995	\$15,506*	\$14,122*	\$1,384*
1994	13,149	10,825	2,324
1993	11,309	8,242	3,067

### Schedule 2 (000s) omitted

<u>Year</u>	<u>Net Premium Written</u>	<u>Net Investment Income</u>	<u>Net Income</u>
1995	\$6,415*	\$816 *	\$(925) *
1994	6,338	627	(655)
1993	6,075	532	280

\* As Adjusted by Examination

## **REINSURANCE**

The Company has only one reinsurance contract in effect as of December 31, 1995 and is summarized as follows:

<u>Type of Contract</u>	<u>Description</u>	<u>Company Retention</u>	<u>Reinsurance Limit</u>
Individual Life	Excess of Loss	\$25,000	\$100,000

The contract, with Lincoln National Life Insurance Company, contains an insolvency clause which provides that in the event of insolvency of the reinsured, the reinsurer will remain fully liable for its share of losses without diminution because of such insolvency. This is in conformity with RCW 48.12.160 (2). In addition, the contract contained other provisions usual to such contracts. (See No. 6 of Subsequent Events for the new Reinsurance Agreement effective 11/1/96).

## **ACCOUNTING RECORDS AND SYSTEMS**

The Company maintains its accounting records on a Quantel Mini computer system, which includes an accounting software package for the general ledger, cash receipt journals, cash disbursement journals and commissions. The Company has acquired an IBM A/S 400 system and is in the process of transferring its records to this new system.

The records for the investment securities are maintained using the Sunguard investment software. The records are reconciled and balanced monthly and journal entries are generated to update the general ledger system.

A separate claims file is maintained for each claimant. Each claim is reviewed and processed manually on a claims worksheet. Attached to the claims worksheet are the documents supporting the settlement. All settlement checks include an explanation of benefits detailing the basis of payment.

All account balances in the trial balance as of December 31, 1995 were checked against the general ledger and traced to the respective sections of the annual statement.

Work papers of the Company's independent auditors were utilized where possible in the testing and verification of account balances.

## **SUBSEQUENT EVENTS**

- (1) The Certificate of Authority of the Company to transact business in the state of Alaska was suspended effective September 15, 1996 for not maintaining the minimum required capital and surplus. The suspension is for a period of one year unless terminated sooner as permitted by statute of the state of Alaska. As of the date of this report, the Order of Suspension has not been lifted.
- (2) The Company's Certificate of Authority in the state of Arizona was suspended effective October 21, 1996 for being insolvent and in an unsound financial condition within the meaning of Arizona statute. As of the date of this report, the Order of Suspension has not been lifted.
- (3) The Certificate of Authority of the Company in the state of Idaho was suspended effective December 31, 1996 for being in a financially impaired condition as set forth under Idaho statute. The suspension is for a period of one year or until the cause for said suspension is terminated. The financial condition of the Company has improved as of December 31, 1996 and the Certificate of Authority was reinstated on March 6, 1997.
- (4) As of June 30, 1996, the Company's surplus fell below the par value of its outstanding common stock by \$23,653. However, the Company's capital and surplus as of December 31, 1996 have increased by about \$550,000 due to a reinsurance transaction that occurred in the last quarter of 1996.
- (5) The Company entered into a reinsurance agreement with London Life Reinsurance Company effective November 1, 1996. Policies reinsured include policy forms UW-LTC-108-89 and UW-LTC-102-92 on a 50% quota share basis. The net effect on the financial condition of the Company as of December 31, 1996 is a reduction of its assets and liabilities by \$5,456,940 and an increase in its surplus by \$554,387. The increase in surplus is due mainly to the ceding allowance to the Company of \$600,000.

## **Subsequent Events**

(Continued)

(6) The resignation of Phil Pritchett as director and officer of the Company was noted in the minutes of the annual meeting of Directors and Officers on November 22, 1996. Per William Fortune, Secretary of the Company, a new member of the Board will be elected during the next shareholders' meeting. Pat Pritchett, President and owner, is currently pursuing the addition of two more members.

## **FINANCIAL STATEMENTS**

**DECEMBER 31, 1995**

The following financial statements showing the condition of the Company as of December 31, 1995 are included in this report:

- Balance Sheet
- Summary of Operations
- Capital and Surplus Account
- Comparative Balance Sheet
- Comparative Summary of Operations
- Reconciliation of Capital and Surplus

**GREAT REPUBLIC LIFE INSURANCE CO.**  
BALANCE SHEET  
AS OF DECEMBER 31, 1995

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	BALANCE PER COMPANY	Notes	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION	T
<b><u>ASSETS</u></b>					
Bonds	\$ 13,147,099	(1)	\$ (9,925)	\$ 13,137,174	A
Stocks:					
Preferred stocks	595,756			595,756	B
Common stocks	-			-	
Policy Loans	11,516	(2)	(598)	10,918	
Cash on hand and on deposit	(46,791)	(3)	3,224	(43,567)	
Short-term investments	1,298,196	(3)	(3,224)	1,294,972	C
Electronic data processing equipment	40,187	(4)	19,986	60,173	
Federal income tax recoverable	-			-	
Life Premiums & Annuity Considerations deferred & uncollected	50,737	(5)	(1,439)	49,298	
Accident & Health premiums due and unpaid	84,731			84,731	
Investment Income due and accrued	244,902	(6)	(5,166)	239,736	
Aggregate write-ins for other than invested assets	77,362		-	77,362	
<b>Total Assets</b>	<b><u>\$ 15,503,695</u></b>		<b><u>\$ 2,858</u></b>	<b><u>\$ 15,506,553</u></b>	
<b><u>LIABILITIES</u></b>					
Aggregate reserve for life policies & contracts	\$ 1,415,828	(2)	\$ (598)	\$ 1,415,230	
Aggregate reserve for Accident & health policies	11,228,598	(7)	730,000	11,958,598	D
Policy and contract claims:					
Life	15,575			15,575	
Accident and health	296,558			296,558	
Premiums and annuity considerations received in advance	1,942			1,942	
Policy and contract liabilities not included elsewhere:					
Interest Maintenance Reserve	3,392	(8)	(848)	2,544	
Commissions to agents due or accrued	118,052			118,052	E
General expenses due or accrued	98,750	(9)	(18,945)	79,805	
Taxes, licenses and fees (excluding federal and foreign income taxes)	87,768	(10)	(57,142)	30,626	
Federal Income Taxes due and accrued	-		-	-	F
Amounts withheld or retained by company as agent or trustee	2,911			2,911	
Amounts held for Agents' account	75,059			75,059	
Remittances and items not allocated	10,937			10,937	
Asset Valuation Reserve	116,219	(11)	(1,837)	114,382	
<b>Total Liabilities</b>	<b><u>\$ 13,471,589</u></b>		<b><u>\$ 650,630</u></b>	<b><u>\$ 14,122,219</u></b>	
<b><u>CAPITAL AND SURPLUS</u></b>					
Common capital stock	\$ 1,000,000		\$ -	\$ 1,000,000	
Gross paid in and contributed surplus	1,816,290			1,816,290	
Unassigned funds (surplus)	(784,184)		(647,772)	(1,431,956)	
<b>Total Capital and Surplus</b>	<b><u>\$ 2,032,106</u></b>		<b><u>\$ (647,772)</u></b>	<b><u>\$ 1,384,334</u></b>	
<b>Total Liabilities, Capital and Surplus</b>	<b><u>\$ 15,503,695</u></b>		<b><u>\$ 2,858</u></b>	<b><u>\$ 15,506,553</u></b>	

# GREAT REPUBLIC LIFE INSURANCE CO.

## SUMMARY OF OPERATIONS FOR YEAR ENDED DECEMBER 31, 1995

	BALANCE PER COMPANY	Notes	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION
Premiums and annuity considerations	\$ 6,416,425	(5)	\$ (1,439)	\$ 6,414,986
Net Investment Income	830,637	(1) (6)	(9,925) (5,166)	815,546
Amortization of Interest Maintenance Reserve	<u>(385)</u>	(8)	<u>826</u>	<u>441</u>
<b>Total Income</b>	<b><u>\$ 7,246,677</u></b>		<b><u>\$ (15,704)</u></b>	<b><u>\$ 7,230,973</u></b>
Death Benefits	\$ 50,000		\$ -	\$ 50,000
Disability and benefits under accident & health policies	2,205,650	(7)	730,000	2,935,650
Surrender benefits and other fund withdrawals	29,951			29,951
Increase in aggregate reserves for life and A&H policies	2,815,455			2,815,455
Commissions on premiums and annuity considerations	1,219,206			1,219,206
General insurance expenses	993,583	(4) (9)	(6,895) (18,945)	967,743
Insurance taxes, licenses and fees	198,868	(10)	(57,142)	141,726
Increase in loading and cost of collection	(18)			(18)
Aggregate write-ins for deductions	<u>959</u>		<u>-</u>	<u>959</u>
<b>Total Benefits and Expenses</b>	<b><u>\$ 7,513,654</u></b>		<b><u>\$ 647,018</u></b>	<b><u>\$ 8,160,672</u></b>
<b>Net Gain from Operations</b>	<b><u>\$ (266,977)</u></b>		<b><u>\$ (662,722)</u></b>	<b><u>\$ (929,699)</u></b>
Federal Income Taxes	<u>(5,000)</u>		<u>-</u>	<u>(5,000)</u>
<b>Net Income</b>	<b><u><u>\$ (261,977)</u></u></b>		<b><u><u>\$ (662,722)</u></u></b>	<b><u><u>\$ (924,699)</u></u></b>

# GREAT REPUBLIC LIFE INSURANCE CO.

Examination as of December 31, 1995  
COMPARATIVE BALANCE SHEET

	1995*	1994
<b>ASSETS</b>		
Bonds	\$ 13,137,174	\$ 10,456,140
Stocks:		
Preferred stocks	595,756	216,656
Common stocks	-	-
Policy Loans	10,918	8,333
Cash on hand and on deposit	(43,567)	150,242
Short-term investments	1,294,972	1,763,877
Electronic data processing equipment	60,173	68,797
Federal income tax recoverable	-	19,598
Life premiums & annuity considerations deferred & uncollected	49,298	50,767
Accident & Health premiums due and unpaid	84,731	89,944
Investment Income due and accrued	239,736	226,206
Aggregate write-ins for other than invested assets	77,362	98,725
<b>Total Assets</b>	<b>\$ 15,506,553</b>	<b>\$ 13,149,285</b>
<b>LIABILITIES</b>		
Aggregate reserve for life policies and contracts	\$ 1,415,230	\$ 1,306,930
Aggregate reserve for Accident & Health policies	11,958,598	8,522,035
Policy and contract claims:		
Life	15,575	39,575
Accident and Health	296,558	453,047
Premiums and annuity onsiderations received in advance	1,942	1,160
Interest Maintenance Reserve	2,544	1,907
Commissions to agents due or accrued	118,052	117,776
General expenses due or accrued	79,805	87,256
Taxes, licenses and fees, excluding federal income taxes	30,626	97,421
Federal Income Taxes due and accrued	-	-
Amounts withheld or retained by company as agent or trustee	2,911	2,880
Amounts held for Agent's account	75,059	80,532
Remittances and items not allocated	10,937	14,700
Asset Valuation Reserve	114,382	99,941
<b>Total Liabilities</b>	<b>\$ 14,122,219</b>	<b>\$ 10,825,160</b>
<b>CAPITAL AND SURPLUS</b>		
Common capital stock	\$ 1,000,000	\$ 1,000,000
Gross paid in and contributed surplus	1,816,290	1,816,290
Unassigned funds (surplus)	(1,431,956)	(492,165)
<b>Total Capital and Surplus</b>	<b>\$ 1,384,334</b>	<b>\$ 2,324,125</b>
<b>Total Liabilities, Capital and Surplus</b>	<b>\$ 15,506,553</b>	<b>\$ 13,149,285</b>

# GREAT REPUBLIC LIFE INSURANCE CO.

Examination as of December 31, 1995

## COMPARATIVE SUMMARY OF OPERATIONS

	1995 *	1994
Premiums and annuity considerations	\$ 6,414,986	\$ 6,337,788
Net Investment Income	815,546	627,171
Amortization of Interest Maintenance Reserve	<u>441</u>	<u>1</u>
<b>Total Income</b>	<b>\$ <u>7,230,973</u></b>	<b>\$ <u>6,964,960</u></b>
Death Benefits	\$ 50,000	\$ 117,156
Disability and benefits under accident & health policies	2,935,650	2,434,157
Surrender benefits and other fund withdrawals	29,951	33,811
Increase in aggregate reserves for life and A&H policies	2,815,455	2,526,053
Commissions on premiums and annuity considerations	1,219,206	1,330,313
General insurance expenses	967,743	951,111
Insurance taxes, licenses and fees	141,726	216,509
Increase in loading and cost of collection	(18)	307
Aggregate write-ins for deductions	<u>959</u>	<u>5,072</u>
<b>Total Benefits and Expenses</b>	<b>\$ <u>8,160,672</u></b>	<b>\$ <u>7,614,489</u></b>
<b>Net Gain from Operations</b>	<b>(929,699)</b>	<b>(649,529)</b>
Federal Income Taxes	<u>(5,000)</u>	<u>5,402</u>
<b>Net Income</b>	<b>\$ <u>(924,699)</u></b>	<b>\$ <u>(654,931)</u></b>

### **CAPITAL AND SURPLUS ACCOUNT**

Capital and surplus, December 31, previous year	\$ <u>2,324,123</u>	\$ <u>3,067,076</u>
Net Income	(924,699)	(654,931)
Change in non-admitted assets	(671)	(90,478)
Change in Aggr W/I for gains & losses in Surplus	22	
Change in Asset Valuation Reserve	<u>(14,441)</u>	<u>2,458</u>
Net change in capital and surplus for the year	\$ <u>(939,789)</u>	\$ <u>(742,951)</u>
<b>Capital and surplus, December 31, current year</b>	<b>\$ <u><u>1,384,334</u></u></b>	<b>\$ <u><u>2,324,125</u></u></b>

**GREAT REPUBLIC LIFE INSURANCE CO.**

Examination as of December 31, 1995

**RECONCILIATION OF CAPITAL AND SURPLUS**

	<u>1995 *</u>	<u>1994</u>	<u>1993</u>
<b>Capital and Surplus, December 31, previous year</b>	<b>\$ <u>2,324,123</u></b>	<b>\$ <u>3,067,074</u></b>	<b>\$ <u>2,679,667</u></b>
Net income	\$ (924,699)	\$ (654,931)	\$ 279,585
Change in non-admitted assets	(671)	(90,478)	135,733
Change in Asset Valuation Reserve	(14,441)	2,458	(17,765)
Other Surplus Adjustments	<u>22</u>	<u>-</u>	<u>(10,146)</u>
Net change in capital and surplus	<u>\$ (939,789)</u>	<u>\$ (742,951)</u>	<u>\$ 387,407</u>
<b>Capital and Surplus, December 31, current year</b>	<b><u><u>\$ 1,384,334</u></u></b>	<b><u><u>\$ 2,324,123</u></u></b>	<b><u><u>\$ 3,067,074</u></u></b>

## **NOTES TO FINANCIAL STATEMENTS**

**1. Bonds**

Bonds were reported in the Annual Statement at amortized cost in accordance with NAIC valuation rules. During the examination, the reported amortized value of bonds in Schedule D is greater than the audited value by \$9,925. The balance reported by the Company was reduced by this amount.

**2. Policy Loans**

A terminated policy was included in the in-force policy listing and has an outstanding policy loan balance. An examination adjustment has been made to reduce the policy loan and the aggregate reserve for life policies.

**3. Cash on Hand and on Deposit  
Short-Term Investment**

Investment in Short-Term Investments included Cash on Deposit. An examination adjustment has been made to reclassify the amount to Cash on Hand and on Deposit.

**4. EDP Equipment**

Depreciation expense was overstated and the admitted value of EDP Equipment was understated. An examination adjustment was made to reduced depreciation expense and record the audited value of EDP Equipment.

**5. Life Due and Deferred Premium**

An error in the formula that calculates due and deferred premium caused the reported deferred premium to be overstated. An examination adjustment has been made to reduce premium income and the asset Life Due and Deferred Premium.

**6. Investment Income Due and Accrued**

The reported value of Investment Income Due and Accrued is overstated by \$5,166. An examination adjustment has been made to reduce the value of this asset by that amount.

**7. Aggregate Reserve for A&H Policies**

The 1995 A&H Claim Reserve was determined to be deficient by \$730,000. An examination adjustment has been made to increase the reserve by that amount.

**8. Interest Maintenance Reserve**

Computation of the Interest Maintenance Reserve was not in accordance with NAIC guidelines. An examination adjustment has been to reduce the reserve and increase income.

**9. General Expenses Due and Accrued**

This liability was overstated by \$18,945. An examination adjustment has been made to reduce general expenses by this amount.

**10. Taxes, Licenses & Fees Due or Accrued**

An examination adjustment has been made to reduce the premium tax accrual by \$57,142 as of December 31, 1995.

**11. Asset Valuation Reserve**

The reported balance of this reserve is greater than the audited balance. An examination adjustment has been made to reduce the Asset Valuation Reserve.

## COMMENTS ON FINANCIAL STATEMENTS

**A. Bonds \$13,137,174**

The Company's investment in bonds represented 85% of its total admitted assets as of December 31, 1995. All bonds were owned by the Company and were valued in accordance with the procedures prescribed by the NAIC Valuations of Securities manual. These bonds were verified by direct confirmation with the custodial bank. (See Notes to Financial Statements for adjustments made to this account).

<b>B.</b>	<b>Preferred Stocks</b>	<b>\$595,756</b>
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Preferred Stocks are reported at cost. The shares were held in a custodial account and were confirmed directly with the depository bank.

<b>C. Short-Term Investments</b>	<b>\$1,294,972</b>
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Short-Term investments are stated at cost or amortized cost which approximates market value. These investments were verified by direct confirmation with the custodial bank. (See Notes to Financial Statements for adjustments made to this account).

<b>D</b>	<b>Aggregate Reserve of A&amp;H Policies</b>	<b>\$11,958,598</b>
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Per analysis performed by Hugh Kessel, OIC Actuary, and continued by John Jacobson, the A&H Claim Reserve was deficient by \$832,000. This was confirmed by Hiu-wan Ko, OIC Actuarial Analyst. Lynn Peabody of Milliman & Robertson, the Company's Consulting Actuary, stated that the 1995 claim reserve calculated by the Company, when viewed one year later, showed a deficit of \$730,000. (See Notes to Financial Statements for adjustment made to this account).

<b>E.</b>	<b><u>Commissions to agents due or accrued</u></b>	<b>\$118,052</b>
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The balance included \$98,756 payable to an agent since 1991. The agent also owed the Company's subsidiary more than \$100,000. The Company and the agent agreed to offset any amount due him against the amount he owed the California subsidiary. Because of the cease and desist order forbidding the Company from transferring funds to the California subsidiary, the amount is still held as a liability.

**Comments on Financial Statements**  
(Continued)

**F. Federal Income Taxes**

At the time, the California subsidiary was placed into liquidation, the Subsidiary owed the Company, \$217,319. In the consolidated income tax returns for 1992 and 1993, the Company utilized the Subsidiary's operating losses and loss carryforwards and applied the tax benefit to the Subsidiary's payable account and as of December 31, 1993, the balance was reduced to \$9,859. In 1994 and 1995, the Company continued to use the subsidiary's net operating loss carryforwards, but did not allocate the tax benefits to the subsidiary's account balance. The effect of utilizing the losses against taxable income was to reduce GRLIC's taxable income to zero. The Company will be liable for Federal income taxes for utilizing the Subsidiary's operating losses in excess of its basis in the Subsidiary.

# **GREAT REPUBLIC LIFE INSURANCE COMPANY**

## **ACKNOWLEDGMENT**

The cooperation and assistance of the officers and employees of the Company during the examination are hereby acknowledged.

In addition, Francisco S. Ebreo, AFE, FLMI, Insurance Examiner, John Jacobson, AFE, Insurance Examiner, Lisa Kelly, AFE, Insurance Examiner, and Hugh G. Kessel, ASA, MAAA, Actuary, all from the Washington Insurance Commissioner's Office participated in the examination and preparation of this report.

**GREAT REPUBLIC LIFE INSURANCE CO.**

**AFFIDAVIT OF EXAMINER IN CHARGE**

**STATE OF WASHINGTON)**

**)ss**

**COUNTY OF KING )**

Francisco S. Ebreo, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of Great Republic Life Insurance Company was performed in a manner consistent with the standards and procedures required or prescribed by the Washington Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

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Francisco S. Ebreo, AFE, FLMI  
Examiner In Charge  
State of Washington

Subscribed and sworn to before me on this \_\_\_\_\_ day of \_\_\_\_\_ 1997.

\_\_\_\_\_  
Notary Public in and for the  
State of Washington, residing  
at Seattle.  
My commission expires